

**PUBLIC DISCLOSURE**

February 11, 2003

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**SAVAGE ARMS EMPLOYEES CREDIT UNION**

100 SPRINGDALE ROAD  
WESTFIELD , MA 01085

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **SAVAGE ARMS EMPLOYEES CREDIT UNION** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated “Outstanding”**

Savage Arms Employees Credit Union's CRA rating is based on three lending performance criteria. As an industrial credit union which bases its membership on affiliation rather than geography, Savage Arms Credit Union was evaluated on the institution's net loan to total deposit (share) ratio; the distribution of loans to borrowers of different income levels, and its fair lending policies and practices. These factors are considered within the credit union's performance context, which encompasses the institution's overall capacity to lend and the composition of its assessment area/membership.

The outstanding rating is based on an excellent distribution of loans to borrowers of all income levels; an above-average net loan to deposit (share) ratio of 76.7 percent and a good performance in regards to its fair lending practices. The distribution of lending to borrowers of all income levels is given the greatest consideration in the overall evaluation. This lending criterion best demonstrates the institution's record of helping to meet the credit needs of its entire membership, including low- moderate-income borrowers. No CRA complaints were received by the credit union during the period covered by the examination and the credit union has taken steps to implement fair lending policies and practices.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Savage Arms Employees Credit Union is a Massachusetts state-chartered credit union, incorporated on August 15, 1946. The credit union's office is located within the Savage Arms manufacturing plant located in Westfield, Massachusetts. The credit union was established to serve the needs of the employees of Savage Arms Company and its retirees.

Deposit/share offerings include regular share accounts with tiered interest rates, club accounts and IRA accounts. Loan offerings consist of unsecured personal loans, including special purpose short-term loans, share secured loans and new/used vehicle loans and home improvement loans.

As of December 31, 2002, total assets stood at \$1.2 million. Total loans were in the amount of \$628,000 representing 53.1 percent of total assets. The following table depicts the composition of the credit union's loan portfolio.

<b>Loan Portfolio As of December 31, 2002 *</b>		
<b>Loan Type</b>	<b>\$(000's)</b>	<b>%</b>
New and Used Vehicle Loans	404	64.3
Personal Loans	195	31.1
First Mortgage Loans	29	4.6
<b>Total</b>	<b>628</b>	<b>100</b>

\*Source: NCUA 5300 Report

New and used vehicle loans combined totaled \$404,000 and represented 64.3 percent of total loans; while personal loans amount to \$195,000 and represent 31.1 percent. First mortgages (home improvement loans) totaled \$29,000 or 4.6 percent of total loans outstanding.

There were 83 unsecured personal loans in number, as of December 31 2002 and represented 58.5 percent of the number of all loans outstanding.

Competition within the assessment area includes several community and industrial credit unions, small loan companies and community banks. Given its asset size and financial capacity, Savage Arms Employees Credit Union has been successful in helping to meet the credit needs of its assessment area/ membership.

The Division of Banks last conducted a CRA exam on January 19, 1999, which resulted in Savage Arms Employees Credit Union receiving a "Satisfactory" Community Reinvestment Act (CRA) rating.

## **Description of Assessment Area**

### **Membership**

An institution's record of helping to meet community credit needs is evaluated within the context of its assessment area(s). The Massachusetts CRA (Community Reinvestment Act) Regulation, 209 CMR 46.00 allows a credit union, whose membership is not based on residence, to delineate its assessment area based on membership eligibility.

Savage Arms Employees Credit Union's by-laws define the individuals eligible for membership as those employed by Savage Arms, Incorporated and employees of the Savage Arms Employees Credit Union and former and retired employees of these companies and members of their immediate families. In 1994, membership was expanded to include the employees of Passive Bullet Trap, a subsidiary of Savage Arms, Incorporated.

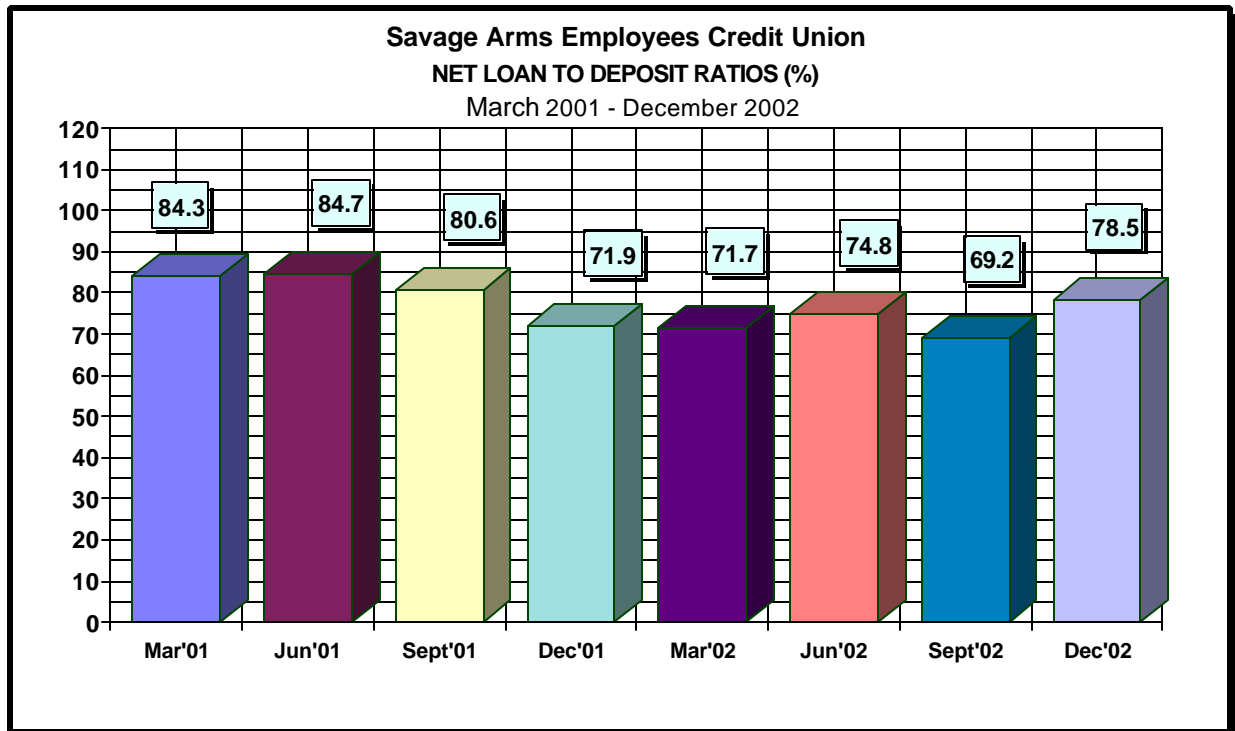
Savage Arms Employees Credit Union has 423 current members and estimates its potential members at 800. Savage Arms, Incorporated employees currently number 211; the majority of individuals are employed on an hourly wage basis. Savage Arms, Incorporated manufactures rifles used for sporting purposes.

The credit union and its membership are situated within the Springfield, MA Metropolitan Statistical Area (MSA). The MSA's median family income (MFI) was \$49,700 and \$50,700 respectively, in 2001 and 2002.

## **PERFORMANCE CRITERIA**

### **1. LOAN TO DEPOSIT ANALYSIS**

This first criterion evaluates the level and trend of the credit union's net loan-to-deposit (share) ratio. The average net loan-to-deposit ratio is 76.7 percent for the period from March 30, 2001 through December 31, 2002. Savage Arms Employees Credit Union's performance is considered very good given the institution's credit product offerings and the recent competitive and economic environment. The following graph depicts the loan to deposit ratio level and trend for the quarters reviewed.



Source: NCUA 5300 Reports and Credit Union Statements of Condition.

Overall, the credit union has been able to maintain a very good ratio of loans to deposits ranging from a low of 71.7 percent in March, 2002 to a high of 84.3 percent in March, 2001. In the year ending December 2001, loans declined a negative 5.8 percent, while total shares/deposits increased by 11.3 percent, resulting in a significant decline in the ratio of loans to deposits (LTD). However in the year ending December 2002, loans increased slightly by 1.7 percent, while shares/deposits declined a negative 6.2 percent, resulting in the LTD rising to 78.5 percent. The level and trend of the LTD though fluctuating, has remained good.

The following table compares this credit union's loan to deposit ratio to four other small credit unions located within the Springfield, MA MSA. The comparative credit unions are all industrial, excepting Western Massachusetts Federal Credit Union. Furthermore, the table provides the LTD ratios, total assets and number of members for each credit union as of September 2002.

Credit Union	Loan to Deposit Ratio	Total Assets (000's)	Members (#'s)
EMBECO	22.5%	6,216	1,249
Western Mass.FCU	57.2%	4,704	3,687
Holyoke Postal	36.6%	3,933	341
Savage Arms Employees	69.2%	1,249	420
Springfield Street Railway	86.9%	947	475

\*Source: NCUA 5300 Report data 9/30/02.

It is notable that Savage Arms Employees Credit Union's LTD ratio was at its lowest level in September 2002 yet, was the second highest ratio among the institution's shown. As indicated above, Savage Arms Credit Union's loan to deposit ratio is almost twice as high as that of the other credit unions, with the exception of Springfield Street Railway, which has assets under \$1million.

In conclusion, Savage Arms Employees Credit Union has maintained an average net loans to deposit ratio of 76.6 percent indicating a good level of lending activity; consequently, the credit union's performance exceeds the standards for a satisfactory rating.

## **2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)**

This criterion evaluates a small institution's record of lending within a defined geographic assessment area. Since Savage Arms Employees Credit Union's assessment area is based primarily on employment affiliation, rather than residence or geography. an analysis of lending patterns on a geographic basis was not conducted.

## **3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS**

This third performance criterion evaluates the extent to which an institution lends to borrowers of different income levels inside its membership sphere/assessment area. The Massachusetts' CRA regulation encourages credit unions to serve the credit needs of all segments of its assessment area/membership, particularly those of low and moderate-income. Consequently, this criterion is given the greatest weight in evaluating an industrial credit union's overall CRA rating. This institution's lending distribution by borrower income level is considered to be excellent and consequently, exceeds the standards for a satisfactory performance.

The analysis included all auto and personal loan originations for the years 2001 and 2002. Borrower incomes were compared to the MSA's area median/Median Family Income (MFI) to determine the borrowers income levels. By CRA definition, borrowers qualify as low income (below 50% of MSA Median Family Income), moderate-income (between 50% and 79% of MSA MFI), middle-income (between 80 and 119% of MFI) and upper-income (120% or more of MSA MFI). The Springfield, MA area median income or FMI was \$49,700 in 2001 and rising to \$50,700 in 2002. In 2002, a low-income family earned \$25,350 or less, while a moderate-income family household earned no more than \$40,560, annually. Middle income families had incomes ranging from \$41,000 to \$60,800, while upper income family households earned \$61,000 or more, annually.

The analysis included a sample of all auto and personal loans granted in 2001 and 2002. The sample was randomly selected; the number of loan originations each year determined

the sample size. Savage Arms Employees Credit Union granted 74 loans for \$318,000 in 2001 and 107 loans for \$478,000 in 2002.

The following table details the analysis of loans (both number and dollars granted) based on the borrowers' income levels.

<b>Consumer Loan Originations by Borrower Income Levels</b>												
<b>Income Level</b>	<b>2001</b>				<b>2002</b>				<b>Totals</b>			
	<b>#</b>	<b>%#</b>	<b>\$(000's)</b>	<b>%\$</b>	<b>#</b>	<b>%#</b>	<b>\$(000's)</b>	<b>%\$</b>	<b>#</b>	<b>%#</b>	<b>\$(000's)</b>	<b>%\$</b>
Low	7	21.2	35	27.1	11	31.4	35	22.7	18	26.5	70	24.7
Moderate	18	54.6	59	45.7	19	54.3	78	50.7	37	54.3	137	48.4
Middle	4	12.1	25	19.4	4	11.4	35	22.7	8	11.8	60	21.2
Upper	4	12.1	10	7.8	1	2.9	6	3.9	5	7.4	16	5.7
<b>Totals</b>	<b>33</b>	<b>100</b>	<b>129</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>154</b>	<b>100</b>	<b>68</b>	<b>100</b>	<b>283</b>	<b>100</b>

Source: Consumer Loan File/Sample

The analysis demonstrates that low and moderate-income borrowers received the overwhelming majority (80.8% by number and 73.1% by dollars) of the loans originated. Upper income borrowers received the smallest portion (7.4% by number and 5.7% by dollar volume) of loans granted. Lastly, loans to middle income borrowers represented 11.8 percent (by number) and 21.2 percent (by dollar volume) of the loans analyzed. Overall, the above analysis indicates a good distribution among all income levels, but particularly among low-income and moderate-income borrowers. It is noted, however that the above evaluation considers the incomes of individual applicants in comparison to median family income which may have the effect of skewing the distribution more towards low and moderate-income borrowers. However, the overwhelming distribution in the low and moderate-income groups is more indicative of the actual number of applications from individuals in these income categories.

The above distribution also indicates that the credit union's loan products are serving the needs of its core membership, which are the active Savage Arms, Incorporated employees.

In conclusion, the institution's loan distribution among low and moderate-income borrowers is considered to be excellent. Savage Arms Employees Credit Union's lending performance is therefore considered to exceed the standards for a "satisfactory" rating for this criterion.

#### **4. GEOGRAPHIC DISTRIBUTION OF LOANS**

This criterion evaluates a small institution's record of lending within the census tracts comprising a defined geographic assessment area. Savage Arms Employees Credit Union's membership eligibility is based on employment affiliation and its assessment area is defined by the institution's membership by-laws. Consequently, an analysis of lending patterns based on the census tract income levels was not conducted.

## **5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES**

Savage Arms Employees Credit Union received no CRA-related complaints in the period under review. The credit union has a good record of implementing fair lending practices. The credit union has a written loan policy, which is reviewed on an on-going basis. The following discussion is based on the guidelines of the Division of Banks' Regulatory Bulletin 2.3-101.

The credit union continues to be a member of the Massachusetts Credit Union League, Inc and its Pioneer Valley Chapter. Directors attend monthly chapter meetings at which an invited speaker will address relevant and educational topics. The credit union's manager is the only full-time employee. This individual is not bilingual. All of the credit union's directors are current employees of Savage Arms, Inc and through daily association ascertain the members' credit needs.

Loan products are marketed through quarterly statement flyers, advertisements on official checks, separate mailings and bulletin board postings in the workplace. This marketing strategy adequately informs eligible members of the credit products offered. Savage Arms Employees Credit Union provides both credit education and counseling to members on an individual basis. Assistance and advice is offered throughout the lending process by the manager of the credit union.

All loan applications are approved by the credit committee, which is comprised of 3 members. All loan approvals or denials are made based on the majority of 2 credit committee members. The committee process allows for input and provides feedback as to whether all possibilities were pursued in the loan decision.

### **Conclusion/Fair Lending**

Savage Arms Employees Credit Union's fair lending practices are considered to meet the standards for satisfactory performance. The rating is based particularly on the credit union's providing credit products that meet the needs of the membership; and its efforts to market these loan products to all segments of membership. The credit union is also recognized for its efforts to provide individual counseling throughout the lending process, and to review all denied loan applications to ensure fairness in the underwriting and loan application process.



**THE COMMONWEALTH OF MASSACHUSETTS**

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

**SAVAGE ARMS EMPLOYEES**

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **February 11, 2003**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area , each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.